Financial Research Education & Data

Volume 18, Issue 5
Trading Week Starting
January 20, 2026

The FRED Report

Summary of Market View

Fred Commentary on the market open this morning:

> *The market is opening down a bit more than we expected last night. We believe this is a short-term buying opportunity but would be careful about adding tech names. We would expect the market to stabilize early this week - traders can actually try to trade this to the upside. From an intermediate perspective, a rally into the end of the month from here is a selling opportunity - use it accordingly.*

In stocks, we discuss what to do if stocks correct as we forecast. In fixed Income, we look at REITs. There are some interesting developments in these, principally in small cap REITs.

In Commodities, we look at Forestry and Timber ETFs. If you want, reread last week's discussion of Housing Stocks in conjunction with this. In International, we show our long-term chart of the Nikkei index and give some Japanese stock ideas. Last, in Chart of Interest, we look at our special Volatility Indicator (called Fred's volatility Indicator). This suggests risk of a pullback.

INSIDE THIS ISSUE:

Special points of interest:

- While the leading stocks in IYW and XLK are still strong, we are seeing more weakness in secondary tech.
- We should be moving into other areas, such as XLI, as an example.
- Having some representation of other indexes in portfolios is also important – and we have discussed switching into RSP as opposed to SPY.

Stocks Review

Stocks have hit “pause” in this rally, but we expect it to resume later this week. Our big concern is the next peak, which we expect to occur at the end of January/beginning of February. So, what should we do as the month ends to prepare for a potential correction? There are a couple of things going on in the market now that we believe will persist throughout the year. We should position portfolios gradually to take advantage of these things.

The first of these is the rotation away from technology names. We can see that **IYW (iShares U.S. Technology ETF)** and **XLK (State Street Technology Select Sector SPDR ETF)** made their all-time highs in November. While the leading stocks in those ETFs are still strong, we are seeing more weakness in secondary tech. At the same time PE’s in that sector have expanded. So, the second thing is that we should be moving into other areas (look at **XLI (SPDR® Select Sector Industrials ETF)** as an example). Having some representation of other indexes in portfolios is also important – and we have discussed switching into **RSP (Invesco S&P 500 Equal Weight ETF)** as opposed to **SPY (SPDR S&P 500 ETF Trust)**.

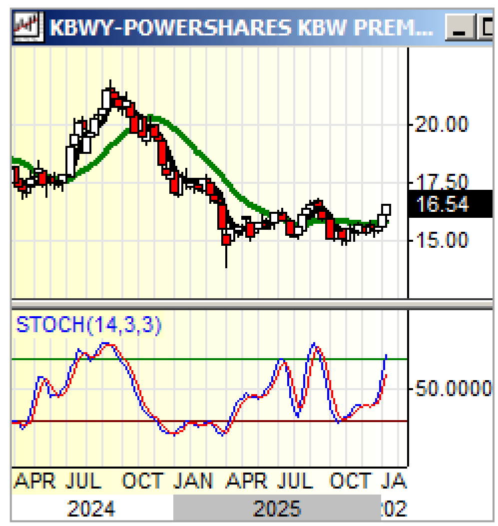
We should also move into some traditionally defensive areas, such as dividend stocks and even low volatility ETFs. Our favorites are **SPLV (Invesco®S&P 500 Low Volatility ETF), USMV (iShares®MSCI Minimum Volatility ETF),** and **VFMV (Vanguard Minimum Volatility ETF).** All of these do the job well, but the best performer right now is VFMV.

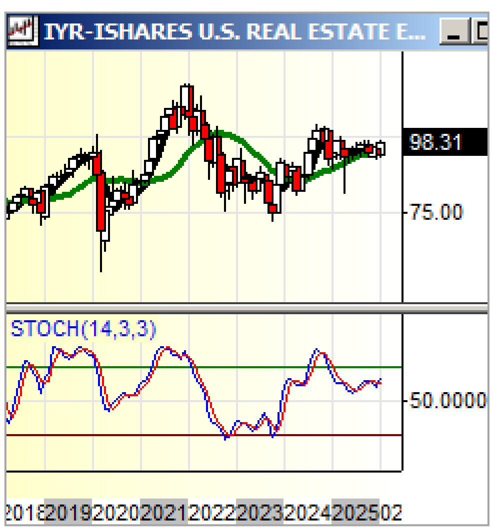
The most interesting thing about **VFMV** is that it is the only one of these that has representation from large, mid, and small cap areas of the market. **USMV** has a larger stock universe but is large cap oriented, and **SPLV** is based on the S&P 500. We show weekly charts of these below and recommend VFMV as a low volatility solution for this correction as it has representation from small and mid cap issues, which have been lagging. Please note that we still expect a good year for equities, overall. We are being cautious as our longer-term indicators are overbought, forecasting a correction, and the average decline in mid-term election years is around 18%.

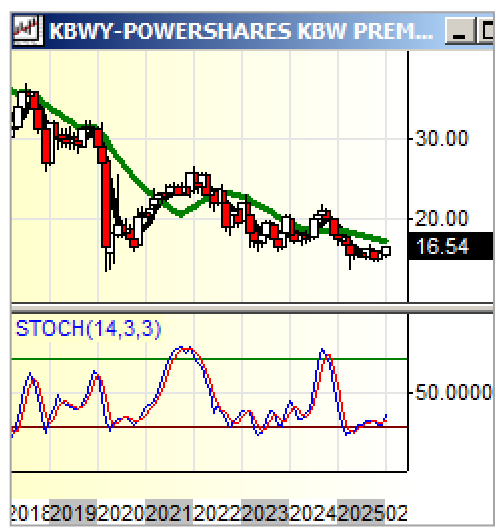
Fixed Income Review

We have not looked at REITs in a while, and this sector has been weaker than the market for a while. The main Sector ETF is **XLRE (State Street Real Estate Select Sector SPDR ETF)** and it is featured in the Sector Review (out this week) so we will not review it here. Instead, we will look at three ETFs we have recommended at various times. These are: **IYR (iShares® Dow Jones Real Estate Index Fund), VNQ (Vanguard REIT ETF),** and **KBWY (Invesco® Premium Yield Equity REIT ETF).** The first two are large cap REITs and are very similar to XLRE, and also similar in chart pattern to each other. The last is a smaller cap REIT. It is picking up as small cap stocks have improved and may be a good speculation. Income is always important to REIT buyers, and we show them here: VNQ 3.8%, IYR 2.4% KBWY 9.1%. Over the last five years, we have recommended adding KBWY to a large cap REIT position to enhance yield. This has given a bit more yield but also been a drag on performance.

One obvious question is whether IYR's chart is superior to VNQ as otherwise the yield difference would make VNQ the obvious choice. Unfortunately, it is not – **so we would use VNQ** and we will look at this here. VNQ has support from 87 to 85, and resistance is the 95-area. The daily stochastic is overbought, and the weekly is a high-risk buy, having turned up in advance of a buy recycle. This is an improving pattern. The pattern on IYR is, for intents and purposes, identical. We would not use it, although if you are in it, we would not swap and instead look for another income producing vehicle – maybe add to KBWY. KBWY has lagged a bit on a long-term basis but it is perking up now. Support is from 15 to 14, and resistance is 17 to 18 in layers. The daily stochastic is overbought, as is the weekly. Given the higher yield and the improving chart pattern, this is worth adding to here. We show weekly and monthly charts, below, and obviously look at the daily charts on your charts.







Commodity Review

We have not looked at **WOOD (iShares® Global Timber and Forestry)** and **CUT (Invesco® Timber ETF),** in a while. Housing is in the news once again and these are key materials for housing. Of these two, WOOD is the most attractive technically. We say this because it has broken above the September 2025 resistance and CUT did not. Both are similar formations, however. Since we discussed Housing ETFs in our January 12th Weekly, this discussion is especially appropriate.

"WOOD is the most attractive technically. We say this because it has broken above the September 2025 resistance and CUT did not."

We will take a more in-depth look at **WOOD**. It has intermediate support in the 65-area. Short-term support is 75, the breakout above the September high. Resistance is the 80-area. The daily and weekly stochastics are both overbought, not a surprise as this is showing some decent momentum. The stochastics on **CUT** are similar, as is the pattern – if you are already in CUT, we would not switch them out. For new buyers we do recommend WOOD, as it has better relative performance and one of our technical rules is to buy the strongest unit in a subgroup. We show charts, below.

International Review

On last Thursday's call, we were asked about the long-term potential in the Japanese equity markets. We show a yearly chart of Japan to illustrate why we think this is quite high. Japan is the only developed market to break out to new secular highs in the last five years. If this is significant, it might mean that Japan is where the US was back in the 1980's. Certainly there is value in Japan – Warren Buffet bought several Japanese equities over the last five years. Our idea is to pick a couple of solid Japanese companies and buy them with an ultra long-term time horizon.

We chose two inexpensive stocks of good companies and have discussed these on calls (**MUFG [Mitsubishi UFJ Financial Group Inc. ADR]** and **NMR [Nomura Holdings Inc. ADR]**). **Full disclosure here**: Fred owns both of these. You can choose these or others – the idea is a 20 or 30-year hold. The other idea is to treat this as a good speculation. Our plan was to let these go to zero without severely impacting our portfolio – in other words, don't buy too much of them! We show chart, below.

[Editor's Note: Fred is not worried about the current pullback in Japan and would use this as a buying opportunity.]

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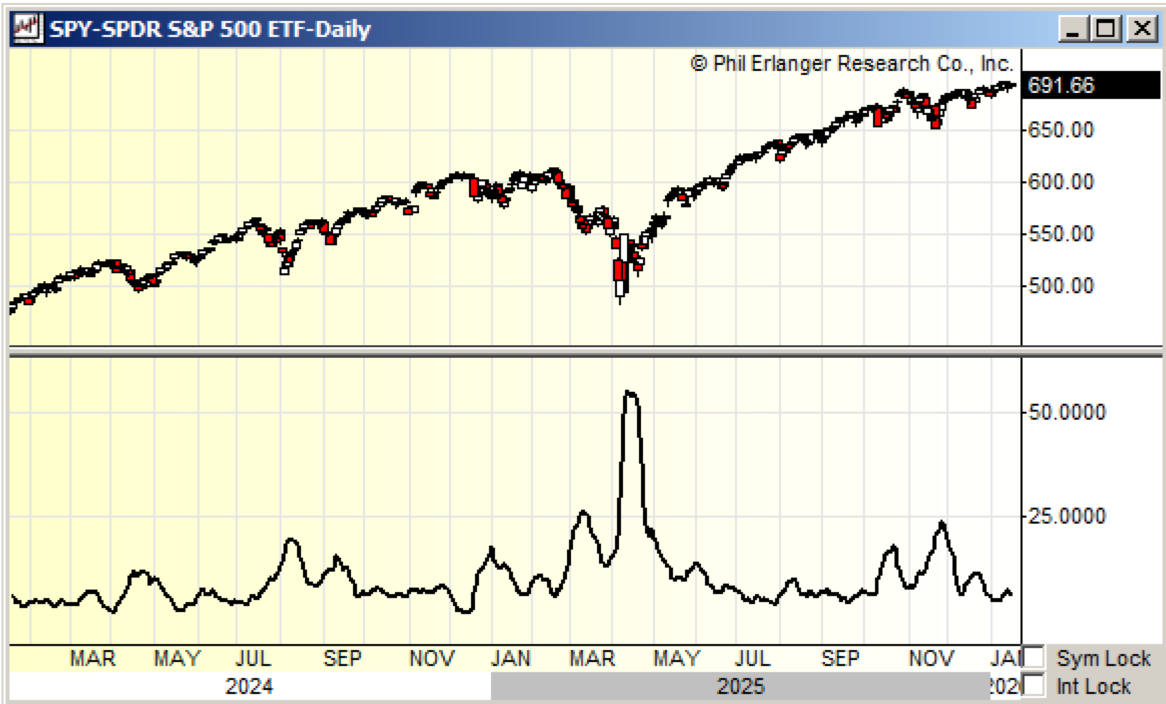
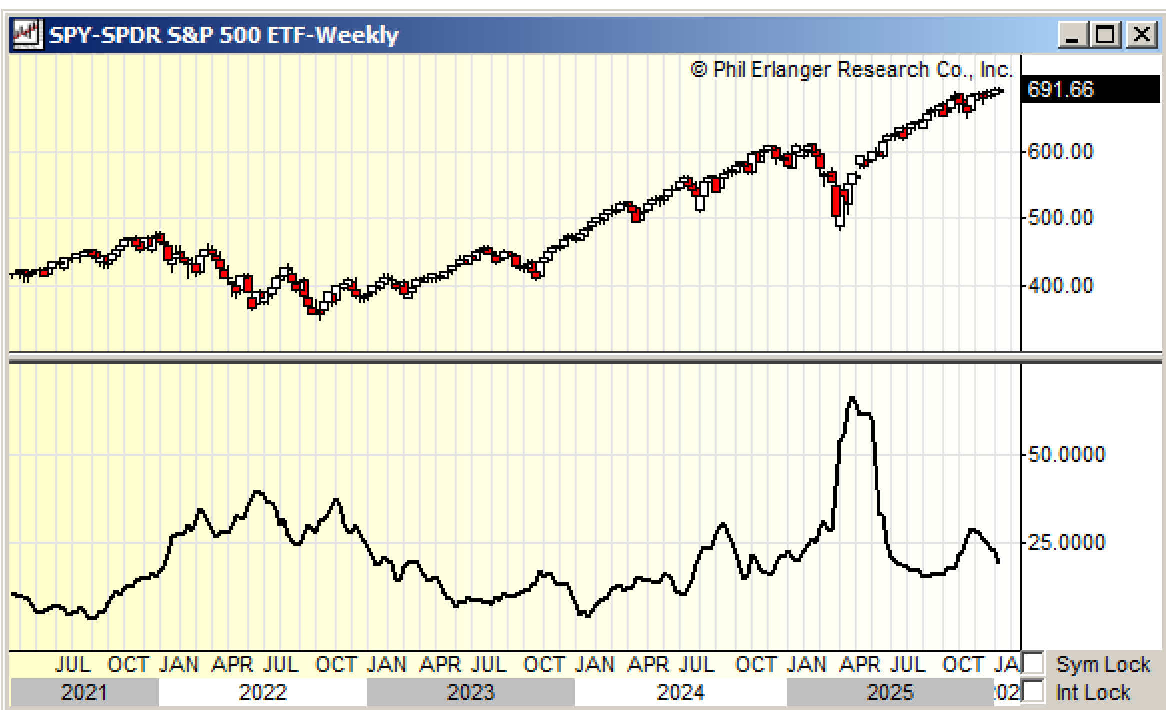
Weekly Chart of Interest

We show daily and weekly charts of our **Fred's Volatility Indicator**. The daily chart is low enough to suggest complacency and a market pullback. The weekly is a bit harder to evaluate. It has fallen, but probably not enough to suggest a really large decline. The last big signal on the weekly hit in 2020. However, there was a decline in April from this level on the weekly and we have a bit of concern – but most of the time signals come from a bit lower.





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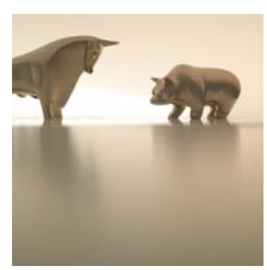

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